

## PROPOSED PLAN FOR INSURING WAR CROPS //

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Prepared by the Federal Crop Insurance Corporation //

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Attached is a proposed plan for insurance of war crops. Its primary purpose is to provide an additional incentive for the production of certain crops necessary in the war effort that would be designated by the Secretary of Agriculture. This insurance would guarantee the producer a return of at least the average investment in the crop.

While supported prices provide a guarantee against the price risk, this price support does not afford protection to the man who does not raise a crop. Incentive payments offer some protection against crop failure and may be ample in stable production areas but should be supplemented by insurance protection in those areas where production risks are high because the farmer is planting a crop with which he is not familiar, where war-time shortages of labor, material, or equipment may affect his production, and where yields are low in relation to cost. It is often in areas where the yields fluctuate widely and average yields are therefore low that the greatest possibility of expansion in production exists. Because of the high risk in such areas or on such farms, insurance is particularly needed.

Since under this plan the coverage is progressive and is larger if the crop is harvested than if it is not harvested, there would be an incentive to carry these crops through to maturity and harvest them under circumstances where the prospect of a poor yield might otherwise justify abandonment. Since the coverage would be higher if the crop were planted on the average or better than average land on the farm the incentive will be for the farmer to plant his war crop on the more productive land on the farm. With the present war-time shortages of labor, equipment, and other essentials many farmers may be inclined to plant only the acreage that they are confident they can harvest. They will hesitate to take the financial risk of planting such a crop and speculate on whether or not labor and equipment will be available. However, with insurance protection covering losses due to war-time shortages many will be willing to plant larger acreages than they are sure that they can carry to maturity and harvest with the present outlook for labor and equipment. If the farmer at the Government's request has brought a large acreage through to harvest, it will then become a national responsibility to see that such crop is harvested.

Under this plan the insured is not penalized for planting less than his acreage goal. Hence, there is no incentive to keep the farm goal as set forth on the farm plan sheet as low as possible. This insurance protection

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The first part of the paper is devoted to a general discussion of the problem. It is shown that the problem is of great importance in the theory of the differential equations of the second order. The second part of the paper is devoted to the study of the properties of the solutions of the differential equations of the second order. It is shown that the solutions of the differential equations of the second order are of great importance in the theory of the differential equations of the second order.

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## PROPOSED PLAN FOR INSURING WAR CROPS

Certain crops would be designated by the Secretary of Agriculture as subject to an insurance guarantee. All producers who sign an approved farm plan including a farm war goal for any insured crop would automatically have insurance protection without cost on their acreage planted to such crop. If the full acreage of the farm goal was planted or the goal was exceeded, the indemnity in general would be for the amount by which the income realized from the crop was less than the investment in the crop as established or estimated under the regulations. If the full goal was not planted, the basis for settlement might be reduced somewhat to provide an incentive for planting the full acreage. This type of insurance will cover not only loss in yield but loss in quality due to unavoidable causes. Unavoidable causes insured against would include such hazards as drought, flood, hail, wind, winterkill, fire, tornado, storm, insect infestation, animal pests, plant diseases, excess or deficient moisture, etc., and war-time shortages of labor, supplies, equipment, and other essentials. It would not include protection against losses due to neglect or malfeasance, theft, use of defective or unadapted seed, failure to properly prepare the land for seeding or properly to seed, harvest, thresh, or care for the insured crop, or failure to reseed in areas and under circumstances where such is customary.

### Insurance Coverage

The amount of insurance coverage would be in dollars. It would be based upon the average or typical investment in the crop including, essentially, only direct but not overhead costs. It would not be confined to cash costs but would include, for example labor costs, land costs and machinery costs. Custom rates in many cases would provide a basis for estimating the cost. Each producer would be insured not for his own investment in the crop but for an average or typical investment subject to reduction at the time of loss adjustment if it was found that certain costs had not been incurred.

The coverage would be progressive, increasing in three stages. The first coverage would usually include the cost of preparing the land, fertilizer, seed, and planting. Fertilizer costs might not be included in full if a material part of the benefit is applicable to a subsequent crop in the same or a later year. If a stand is not obtained and the entire acreage or any portion thereof is released for other use, these costs would be the amount of the coverage for such acreage. If the crop is reseeded, the estimated cost of the reseeded will be added to the coverage.

For the second stage including the growing season, the additional coverage would include cultivation costs, irrigation, fertilizer applied in growing season, and a reasonable amount for the use of the land if, upon failure of the crop, the acreage cannot be replanted to another crop.



The additional coverage for the third stage would include harvesting costs, probably certain processing on the farm in the case of some crops, and the cost of hauling to market. It would not include storage cost as the protection would generally terminate before storage. With this increased coverage for harvesting, the producer would find it profitable to harvest crops which might not otherwise pay the cost of harvesting.

The insured coverage for the farm would be built up by adding together the coverage for all acreages. Thus, if the acreage planted included 10 acres which was released shortly after planting because a stand was not obtained, and 20 acres that was not harvested at maturity because the crop thereon was a complete failure and 30 acres that was harvested, the coverage for the farm would include only the investment for the first stage in the 10 acres, the investment for the first and second stages in the 20 acres and the investment in all three stages for the 30 acres harvested. The indemnity would be determined as the amount by which the value of the crop harvested from the 30 acres was less than the combined coverage built up for the entire 60 acres. If the entire 60 acres had been released shortly after planting because of failure to make a stand, the indemnity would have been the amount of the coverage during the first stage on the 60 acres as the production would have been zero. If the crop on the entire 60 acres has not been released because of early damage but proved to be a complete failure and such acreage would not be harvested, the indemnity would have been the sum of coverages on the 60 acres for the first two stages since the production would have been zero. Thus, under this plan the coverage can be built up not only through three stages but with portions of the acreage reaching different stages. In all cases the indemnity will be the amount by which the value of the crop harvested falls short of this coverage.

County coverage figures would be proposed by county committees, reviewed and adjusted by state committees and by the Federal Crop Insurance Corporation so that they would be consistent as between counties and states and not excessive.

To determine what the coverage would be on various crops in various areas, costs of production studies are being reviewed and reworked to eliminate overhead costs. Labor costs, fertilizer costs, etc., are being revised to reflect 1942 levels. These figures will be the principle basis for guiding counties in submitting tentative coverage figures on the 1942 level basis and will be used by the state committees and the Federal Crop Insurance Corporation in approving or disapproving submitted figures. These tentative figures will later be increased or decreased to 1943 levels before indemnities are determined.



### Income Realized from the Crop

Since for most of these crops supported prices will be in effect, reliance will not have to be based in adjusting losses upon the price received by the insured farmer in local markets. Adjustments will be made upon the completion of harvesting (including threshing) on the basis of the quantity and quality of the production at the time of harvesting, and values applicable to the county. Such values shall be the loan values applicable to the county or the current price that can be obtained if it is higher except that if the production or any part thereof is of a quality not acceptable for loan, a price lower than the loan value may be used.

The amount of income realized shall include:

1. Value of the portion of the crop sold or to be sold or on which a commodity loan has been or is to be obtained.
2. Value of the portion of the crop harvested and retained for farm consumption.
3. Value of the portion of the crop saved as seed.
4. Salvage value of crops not harvested but fed off.
5. The value of by-products of the crop based on current prices.

### Administration of the Program

The program would be kept as simple as possible. The Corporation would determine policies within the broad framework of the legislation and Department policy, prepare regulations, procedures, forms, etc., and pay indemnities. The Agricultural Adjustment Agency, through its Washington office, state committees, and county committees, would carry out the field work.

There would be no application required for insurance as in the case of the present insurance programs. Eligibility for insurance would be determined by the signing of a farm plan in any area where the growing of the crop is approved by the Department of Agriculture.

Acreage figures would be needed for insurance only in the event a loss is claimed. In case a loss is claimed, a definite determination of acreage would have to be made. If definite acreage determinations had been made for computations of other farm program payments, such acreage determinations could be used for insurance purposes.







### Landlord Tenant Relationships

It is not feasible to determine indemnities separately for landlord and tenant because many variations are involved in both the contribution to cost by landlord and tenant and sharing of the crop by landlord and tenant. To treat each independently would involve many inequities with much higher risks in some cases on one than on the other because the share in production is seldom proportional to the contribution to the costs of production. Therefore, the plan calls for the determination of the indemnity for the farm. Both landlord and tenant would sign the Statement in Proof of Loss designating the share of indemnity that would go to each. This share need not necessarily be on the basis of their share in the crop but might involve also the contribution of each to the cost of production.

### Termination of the Insurance Protection

The insurance protection would terminate upon completion of harvesting of the crop (threshing for crops where applicable) unless in certain crops some processing on the farm is required. Hence, the insurance protection would not cover losses during storage.

### Application of Indemnities to Payment of Production Loans

Any indemnity due would be subject to deduction for principal and interest on money loaned by the Department for 1943 farm production. Rights to the indemnity payment would not be assignable to other creditors.

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Insurance of the Landlord Tenant Relationship

The insurance company would determine upon completion of harvest of the crop (thereby making the insurance applicable) unless in certain crops some process of insurance is required. Hence, the insurance protection would be during storage.

Insurance of Landlord Tenant Relationship

Any indemnity due would be subject to deduction for charges and interest on money loaned. The Department for 1943 farm production rights to the indemnity payment would not be assignable to other creditors.

